

ROOSEVELT NEIGHBORHOOD PROPOSED REZONING
ECONOMIC ANALYSIS OF ZONING CHANGES
PROPERTY COUNSELORS
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INTRODUCTION

The City of Seattle is considering a rezoning of the Roosevelt neighborhood in anticipation of a future light rail station as part of Sound Transit's Central Link rail service. Property Counselors has evaluated the various proposed changes in zoning designations to determine:

- Is development feasible under the proposed changes?
- Does the additional density allowed support the inclusion of affordable housing under the City's incentive zoning ordinance (SMC 23.58A)?
- How would the Multifamily Tax Exemption Program (MFTE) affect the feasibility of development under the proposed zoning changes?

The economic analysis for each proposed change is presented in this report. The report is organized in the following sections.

Development Prototypes

Method and Assumptions

Results and Conclusions

The analysis is based on a series of assumptions intended to reflect likely future development conditions for typical new development. Such assumptions include sizes and types of units, amount of parking, property assembly and cost, rental rates and prices, absorption rates, and development costs. Actual development and future market conditions may differ from these assumptions and the results would differ as well.

DEVELOPMENT PROTOTYPES

The potential development under either existing or changed zoning is summarized in the following table.

Description of Zoning Prototypes

	SF	LR1	LR2	LR3	NC40	NC65
Lot Area (sq. ft.)	6,000	6,000	6,000	6,000	12,000	12,000
Floor Area Ratio						
Residential			1.30	2.00	3.00	4.25
Commercial					0.25	0.50
Gross Building Area						
Residential		-	7,800	12,000	36,000	51,000
Commercial		-	-	-	3,000	6,000
Total		-	7,800	12,000	39,000	57,000
Efficiency						
Residential			85%	85%	85%	85%
Commercial			95%	95%	95%	95%
Net Building Area						
Residential		-	6,630	10,200	30,600	43,350
Commercial		-	-	-	2,850	5,700
Total		-	6,630	10,200	33,450	49,050
Average Unit Size (nsf)	2,000	1,200	630	630	630	630
Residential Units	1	3	11	16	49	69
Parking Spaces per Unit		1.0	0.6	0.6	0.6	0.6
Parking Spaces		3	6	10	29	41
Building Form	SF Detached	SF Attached	3 Floors	4 Floors	3 over 1	5 over 1
Parking	Pr. Garage	Pr. Garage	Partial Gr. Fl.	Partial Gr. Fl.	1 Floor U/G	1 Floor U/G

The assumed unit size for the LR 2, LR 3, NC 40 and NC 65 prototypes is 630 net rentable square feet, reflecting the average size for the three new buildings in the University area built in 2008 or later.

For the scenarios with rezones from the single family and low rise to neighborhood commercial, an aggregation of two 6,000 square foot lots is assumed. In the case of LR 1, a 12,000 square foot lot is assumed to accommodate seven row houses, rather than the six units on two independent 6,000 square foot lots.

METHOD AND ASSUMPTIONS

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the value of the completed development for

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any prototype to its cost of development. In the case of single family development under SF 5000 and LR 1, the value is calculated as the net proceeds from sale of units. In the case of apartments under the other prototypes, the value is calculated as the capitalized value of the annual income stream. The difference between the value and the development cost is the entrepreneurial return to the developer. The return can be expressed as a percentage of development cost. A rate of 10% is considered a minimum threshold for feasibility.

Units are considered to be affordable if the total monthly cost does not exceed 30% of income, for households with income not exceeding 80% of the area median income as published by HUD (area currently includes King and Snohomish counties) for various household sizes and unit types.

The incentive zoning provisions of the land use code allow for additional development under rezones in designated areas in return for provision of public amenities. The primary amenity is the provision of affordable housing in the amount of 17.5% of the additional residential development allowed. In this analysis, the additional density is calculated as the increase in allowable floor area for both residential and commercial uses.

Development cost is calculated as the sum of land acquisition, building construction, and soft costs. Development costs are expressed in today's dollars, as if the development proceeds immediately. Rent levels and sales prices are assumed at a future stabilized year approximately three years in the future to allow for construction and lease-up. Development costs assume land acquisition at current prices for the prior zoning.

The primary assumptions in the analysis are summarized in the table on the following page. Operating expenses reflect gross leases (landlord pays expenses) for residential uses, while commercial expenses are net (tenant pays expenses). The assumptions reflect current construction costs that are lower than rates three years ago. Land prices are assumed at stabilized levels below prices from three years ago. Current rents for the NC 40 and NC65 cases are based on \$2 per square foot per month for new apartments in the University area as reported by Dupre and Scott in *Apartment Vacancy Report*. This rate is assumed to increase at rates of 2.3%, 4.6%, and 5.1% in 2011, 2012, and 2013 respectively as projected by Dupre and Scott. The reduced operating cost factor for the Multi-family Tax Exemption (MFTE) program, is calculated to be equivalent to the twelve year exemption.

Major Assumptions

	SF 5000	Low Rise 1	Low Rise 2	Low Rise 3	NC 40	NC65
Sales Price (\$/sq. ft.)						
Single Family Detached-Market	\$350.00	\$350.00				
Rowhouse-Market						
Average Unit Size (Net Sq. Ft.)	2,000	1,200	630	630	630	630
Rent (/sq. ft./yr.)						
Apartment			\$25.76	\$25.76	\$27.00	\$27.00
Affordable Apartment			19.68	19.68	19.68	19.68
Commercial					20.00	20.00
Operating Expense (/sq. ft./yr)						
Apartment			\$8.40	\$8.40	\$8.80	\$9.00
Apartment w/ Tax Exemption			7.20	7.20	7.60	7.80
Commercial					1.00	1.00
Parking Rent						
Apartments (/sp./mo.)			\$70.00	\$70.00	\$70.00	\$70.00
Land Cost (\$/sq. ft.)	\$60.00	\$115.00	\$120.00	\$125.00	\$125.00	\$140.00
Construction Cost						
Single Family Detached (\$/sq. ft.)	\$100.00					
Rowhouse (\$/sq.ft.)		\$120.00				
Apartments (\$/sq. ft.)			\$125.00	\$125.00	\$140.00	\$140.00
Commercial					\$110.00	\$110.00
Underground Parking (/sp.)	\$22,750	\$22,750	\$22,750	\$22,750	\$22,750	\$22,750
Aboveground Parking (/sp)	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500	\$17,500
Soft Costs						
Single Family	37.0%	37.0%				
Apartments (% of constr.)			28.0%	28.0%	28.0%	28.0%
Commercial			31.0%	31.0%	31.0%	31.0%
Capitalization Rates						
Apartment			6.0%	6.0%	6.0%	6.0%
Commercial					7.5%	7.5%

RESULTS AND CONCLUSIONS

Eight different scenarios are evaluated reflecting a range of combinations of existing and potential new zoning. It is assumed that land is acquired at a price determined by the current zoning. The “new without affordable units” case demonstrates the impact of the higher allowed density. The “new with affordable” reflects the requirement that 17.5% of the additional residential and commercial area would be provided as affordable at the 80% of median income level, The “affordable with MFTE” case reflects the impact of the reduced operating costs for projects under this program, and 20% of all units are affordable.

The results of the analysis can be expressed in a comparison of entrepreneurial return as a percentage of development cost. As noted earlier, a rate of 10% is considered a threshold value for feasibility. The green highlighted cells indicate the scenarios that are feasible by this measure. The yellow highlighted cells reflect scenarios that almost meet this threshold.

Summary of Entrepreneurial Return as Percent of Development Cost

	Existing	New w/o Affrd.	New w/ Affrd.	W/Affrd.&MFTE
SF 5000 to LR 3	1.6%	14.8%	9.1%	15.1%
SF 5000 to NC 40	1.6%	17.8%	10.5%	16.6%
SF 5000 to NC 65	1.6%	17.2%	9.5%	16.0%
LR 1 to LR 3	-5.9%	1.4%	-1.6%	1.7%
LR 1 to NC 40	2.2%	9.0%	2.3%	8.0%
LR 2 to NC 40	-11.6%	8.3%	3.8%	7.2%
LR 2 to NC 65	-11.6%	10.5%	4.9%	8.1%
NC 40 to NC 65	4.4%	10.0%	7.5%	8.9%

The results can be summarized as follows.

1. In general, scenarios with incentives and the MFTE achieve higher rates of return than under exiting zoning, and comparable rates for the new zoning without the affordability requirements. The additional density increases the return, while the affordability requirement reduces the return, and the availability of the MFTE offsets that reduction.
2. The low returns for development under the Single Family designation reflect the fact that most of the area is built out. Development of a new dwelling would require the purchase of an existing home. The effective land cost is too high for a feasible project. In effect, the existing improvements are the highest and best use.
3. The low returns for development under the LR 1 designation reflect the fact that a row house project doesn't maximize the allowable Floor Area Ratio (FAR). As a

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result, the effective land price is high. Even with the higher assumed density under the development of a 12,000 square foot parcel, the return rate still doesn't meet the threshold rate.

4. The low returns for development under the LR 2 designation also reflect a land price in this designation that is relatively high in comparison to the potential building area.
5. The scenarios with rezoning of SF 5000 land show the highest returns across all cases. Projected returns nearly meet the threshold rate with the affordability requirement. Application of the tax exemption is probably not necessary in these cases.
6. The other scenarios with rezones to NC 40 and NC 65 cases show returns approaching the threshold rate with the tax exemption. These cases likely would require the MFTE program to be feasible.
7. The scenario with rezoning of LR 1 to LR 3 would require more optimistic development and market assumptions, as well as the MFTE to provide for feasible development.

The results are shown in more detail on the following pages.

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ROOSEVELT AREA PROPOSED REZONING

Change from SF 5000 to LR 3

	Existing SF 5000	New w/o Affrd. LR 3	New w/ Affrd. LR 3	W/Affrd.&MFTE LR3
Description				
Site Area (SF)	6,000	6,000	6,000	6,000
Gross Building Area (SF)				
Residential	2,000	12,000	12,000	12,000
Commercial	-	-	-	-
Residential Units				
Market	1	16	14	13
Affordable	-	-	2	3
Parking Spaces	-	10	10	10
Estimated Capital Investment				
Land Acquisition	360,000	360,000	360,000	360,000
Construction	200,000	1,670,000	1,670,000	1,670,000
Soft Costs	74,000	467,600	467,600	467,600
Total	634,000	2,497,600	2,497,600	2,497,600
Financial Performance				
Capitalized Value of Income	-	2,868,240	2,725,043	2,875,856
Net Proceeds of Sale	644,000	-	-	-
Entrepreneurial Return	10,000	370,640	227,443	378,256
Return as Percent of Investment	1.6%	14.8%	9.1%	15.1%

ROOSEVELT AREA PROPOSED REZONING

Change from SF 5000 to NC40

	Existing SF 5000	New w/o Affrd. NC 40	New w/ Affrd. NC 40	W/Affrd.&MFTE NC 40
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)				
Residential	4,000	36,000	36,000	36,000
Commercial	-	3,000	3,000	3,000
Residential Units				
Market	2	49	40	39
Affordable	-	-	8	10
Parking Spaces	-	29	29	29
Estimated Capital Investment				
Land Acquisition	720,000	720,000	720,000	720,000
Construction	400,000	5,853,000	5,853,000	5,853,000
Soft Costs	148,000	1,648,740	1,648,740	1,648,740
Total	1,268,000	8,221,740	8,221,740	8,221,740
Financial Performance				
Capitalized Value of Income	-	-	-	-
Net Proceeds of Sale	1,288,000	-	-	-
Entrepreneurial Return	20,000	1,463,760	860,356	1,366,452
Return as Percent of Investment	1.6%	17.8%	10.5%	16.6%

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ROOSEVELT AREA PROPOSED REZONING

Change from SF 5000 to NC65

	Existing SF 5000	New w/o Affrd. NC 65	New w/ Affrd. NC 65	W/Affrd.&MFTE NC 65
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)	-	-	-	-
Residential	4,000	51,000	51,000	51,000
Commercial	-	6,000	6,000	6,000
Residential Units				
Market	2	69	56	55
Affordable	-	-	13	14
Parking Spaces	-	41	41	41
Estimated Capital Investment				
Land Acquisition	720,000	720,000	720,000	720,000
Construction	400,000	8,739,250	8,739,250	8,739,250
Soft Costs	148,000	2,466,790	2,466,790	2,466,790
Total	1,268,000	11,926,040	11,926,040	11,926,040
Financial Performance				
Capitalized Value of Income	-	13,975,625	13,061,898	13,837,772
Net Proceeds of Sale	1,288,000	-	-	-
Entrepreneurial Return	20,000	2,049,585	1,135,858	1,911,732
Return as Percent of Investment	1.6%	17.2%	9.5%	16.0%

ROOSEVELT AREA PROPOSED REZONING

Change from LR 1 to LR 3

	Existing LR1	New w/o Affrd. LR 3	New w/ Affrd. LR 3	W/Affrd.&MFTE LR3
Description				
Site Area (SF)	6,000	6,000	6,000	6,000
Gross Building Area (SF)				
Residential	3,600	12,000	12,000	12,000
Commercial	-	-	-	-
Residential Units				
Market	3	16	15	13
Affordable	-	-	1	3
Parking Spaces	-	10	10	10
	-	-	-	-
Estimated Capital Investment				
Land Acquisition	690,000	690,000	690,000	690,000
Construction	396,000	1,670,000	1,670,000	1,670,000
Soft Costs	146,520	467,600	467,600	467,600
Total	1,232,520	2,827,600	2,827,600	2,827,600
	-	-	-	-
Financial Performance				
Capitalized Value of Income	-	2,868,240	2,782,322	2,875,856
Net Proceeds of Sale	1,159,200	-	-	-
Entrepreneurial Return	(73,320)	40,640	(45,278)	48,256
Return as Percent of Investment	-5.9%	1.4%	-1.6%	1.7%

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ROOSEVELT AREA PROPOSED REZONING

Change from LR 1 to NC 40

	Existing LR1	New w/o Affrd. NC 40	New w/ Affrd. NC 40	W/Affrd.&MFTE NC 40
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)				
Residential	8,400	36,000	36,000	36,000
Commercial	-	3,000	3,000	3,000
Residential Units				
Market	7	49	40	39
Affordable	-	-	8	10
Parking Spaces	-	29	29	29
Estimated Capital Investment				
Land Acquisition	1,380,000	1,380,000	1,380,000	1,380,000
Construction	924,000	5,853,000	5,853,000	5,853,000
Soft Costs	341,880	1,648,740	1,648,740	1,648,740
Total	2,645,880	8,881,740	8,881,740	8,881,740
Financial Performance				
Capitalized Value of Income	-	9,685,500	9,082,096	9,588,192
Net Proceeds of Sale	2,704,800	-	-	-
Entrepreneurial Return	58,920	803,760	200,356	706,452
Return as Percent of Investment	2.2%	9.0%	2.3%	8.0%

ROOSEVELT AREA PROPOSED REZONING

Change from LR 2 to NC 40

	Existing LR2	New w/o Affrd. NC 40	New w/ Affrd. NC 40	W/Affrd.&MFTE NC 40
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)				
Residential	15,600	36,000	36,000	36,000
Commercial	-	3,000	3,000	3,000
Residential Units				
Market	21	49	43	39
Affordable	-	-	6	10
Parking Spaces	13	29	29	29
Estimated Capital Investment				
Land Acquisition	1,440,000	1,440,000	1,440,000	1,440,000
Construction	2,171,000	5,853,000	5,853,000	5,853,000
Soft Costs	607,880	1,648,740	1,648,740	1,648,740
Total	4,218,880	8,941,740	8,941,740	8,941,740
Financial Performance				
Capitalized Value of Income	3,728,712	9,685,500	9,282,081	9,588,192
Net Proceeds of Sale	-	-	-	-
Entrepreneurial Return	(490,168)	743,760	340,341	646,452
Return as Percent of Investment	-11.6%	8.3%	3.8%	7.2%

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ROOSEVELT AREA PROPOSED REZONING

Change from LR 2 to NC 65

	Existing LR 2	New w/o Affrd. NC 65	New w/ Affrd. NC 65	W/Affrd.&MFTE NC 65
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)				
Residential	15,600	51,000	51,000	51,000
Commercial	-	6,000	6,000	6,000
Residential Units				
Market	21	69	59	55
Affordable	-	-	10	14
Parking Spaces	13	41	41	41
Estimated Capital Investment				
Land Acquisition	1,440,000	1,440,000	1,440,000	1,440,000
Construction	2,171,000	8,739,250	8,739,250	8,739,250
Soft Costs	607,880	2,466,790	2,466,790	2,466,790
Total	4,218,880	12,646,040	12,646,040	12,646,040
Financial Performance				
Capitalized Value of Income	3,728,712	13,975,625	13,261,884	13,664,372
Net Proceeds of Sale	-	-	-	-
Entrepreneurial Return	(490,168)	1,329,585	615,844	1,018,332
Return as Percent of Investment	-11.6%	10.5%	4.9%	8.1%

ROOSEVELT AREA PROPOSED REZONING

Change from NC 40 to NC 65

	Existing NC 40	New w/o Affrd. NC 65	New w/ Affrd. NC 65	W/Affrd.&MFTE NC 65
Description				
Site Area (SF)	12,000	12,000	12,000	12,000
Gross Building Area (SF)				
Residential	-	51,000	51,000	51,000
Commercial	3,000	6,000	6,000	6,000
Residential Units				
Market	49	69	65	55
Affordable	-	-	4	14
Parking Spaces	29	41	41	41
Estimated Capital Investment				
Land Acquisition	1,500,000	1,500,000	1,500,000	1,500,000
Construction	5,853,000	8,739,250	8,739,250	8,739,250
Soft Costs	1,648,740	2,466,790	2,466,790	2,466,790
Total	9,001,740	12,706,040	12,706,040	12,706,040
Financial Performance				
Capitalized Value of Income	9,394,800	13,975,625	13,665,303	13,837,772
Net Proceeds of Sale	-	-	-	-
Entrepreneurial Return	393,060	1,269,585	959,263	1,131,732
Return as Percent of Investment	4.4%	10.0%	7.5%	8.9%